

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 97-147-C - ORDER NO. 97-612
JULY 11, 1997

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IN RE: BellSouth Telecommunications, Inc. -) ORDER
Amendments to General Subscriber Service) ON TARIFF
Reducing Rotary (Hunting) Rate.) INVESTIGATION
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This matter comes before the Public Service Commission of South Carolina (the Commission) on an investigation of Tariff No. 97-53 filed by BellSouth Telecommunications, Inc. (BellSouth or the Company) on February 20, 1997. On that date, BellSouth filed revisions to its General Subscriber Service Tariff. The tariff, under BellSouth's Alternative Regulatory Plan was effective seven days after filing (February 27, 1997). The Company's contention was that this filing would bring BellSouth into compliance with provisions of the Telecommunications Act of 1996 relating to pay telephones subsidies. The filing reduced rates applicable to Rotary Line Service for business customers.

On March 12, 1997, MCI Telecommunications Corporation (MCI) filed its Petition for Investigation and Request for Stay of the Tariff, pending an investigation. MCI alleged that the proposed tariff was not in the public interest, and that the best way to remove payphone subsidies pursuant to certain Federal Communications Commission (FCC) Orders, was to reduce the

intrastate Carrier Common Line (CCL) charge, rather than the charges associated with rotary telephones as stated by BellSouth. Pursuant to Order No. 97-309, we granted an investigation, however, we did not hold that the provisions of the tariff should be stayed. We further ordered in Order No. 97-418, that in our hearing on this matter, the rates and amount of subsidy as described in MCI's original Motion for Investigation would be open for litigation in the hearing on this matter. Pursuant to opening the Docket for investigation, Petitions to Intervene were filed by the South Carolina Public Communications Association (SCPCA), the Consumer Advocate for the State of South Carolina (the Consumer Advocate), AT&T Communications of the Southern States, Inc. (AT&T) and MCI. The SCPCA subsequently withdrew its intervention. The Consumer Advocate subsequently agreed to limit his participation in this matter, based on a Stipulation reached with BellSouth on March 27, 1997. In this Stipulation, the parties agreed that BellSouth would amend its tariff filing to eliminate all zone mileage charges for its local service customers in South Carolina. The approximate revenue impact of the change was \$873,000 on an annual basis.

A hearing was held on this matter on May 28, 1997 in the offices of the Commission, with the Honorable Guy Butler, presiding. BellSouth was represented by Langley Kitchens, Esquire, Robert Culpepper, Esquire and William F. Austin, Esquire. BellSouth presented the testimony of T.F. Lohman and C.L. Addis. The Consumer Advocate was represented by Elliott F. Elam, Jr.,

Esquire. The Consumer Advocate presented no witnesses. AT&T was represented by Francis P. Mood, Esquire. AT&T presented the testimony of James M. Mertz. MCI was represented by John M.S. Hoefer, Esquire. MCI presented the testimony of Melba Reed. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented no witnesses.

BellSouth presented the testimony of T.F. Lohman. Lohman noted that the Telecommunications Act of 1996 requires BellSouth and other Regional Bell Operating Companies (RBOCs) to assign their payphone operations to unregulated operations. Section 276 of the Act instructed the FCC to take all actions necessary to ensure that each RBOC or Local Exchange Company (LEC) meets several key provisions related to payphones. One of these provisions states that each RBOC shall not subsidize its payphone service directly or indirectly from its Exchange Access Operations.

On September 20, 1996, the FCC released its Report and Order in Docket No. 96-128. The FCC subsequently issued modifications in the Order of Reconsideration released on November 8, 1996. The Order stated that the FCC required incumbent LECs to remove from their intrastate rates any charges that recover the costs of payphones. States were required to determine the intrastate rate elements that must be removed to eliminate any intrastate subsidies.

Lohman noted that he calculated that a subsidy of \$2.459 million is embedded in South Carolina's intrastate rates. Lohman

testified that he developed this amount by identifying the revenues, expenses and investment associated with BellSouth's intrastate payphone operations. He then calculated the achieved rate of return for these operations, and determined that it was below an appropriate level. According to Lohman, the revenues required to raise this rate of return to an appropriate level is the amount of the subsidy that has been provided by other intrastate services. This amount is \$2.459 million. BellSouth Tariff No. 97-53 was filed to eliminate the subsidy. According to Lohman, the subsidy would be effective retroactive to April 11, 1997.

BellSouth also presented the testimony of C.L. Addis, who described the provisions of Tariff No. 97-53. Addis noted that this tariff eliminated zone mileage charges for all residents and business customers, and reduced the Hunting (Rotary) Rate for business customers. Addis explained that BellSouth has had requests from customers to reduce zone mileage. South Carolina is one of the last states in BellSouth territory to charge zone mileage. Addis noted that the elimination of the zone mileage charge would directly benefit many of BellSouth's South Carolina residence and business customers. Further, Addis noted that in the past, the Hunting Rate was set at a level which subsidized services that did not cover their costs. The rate was calculated at 50% of the Business Private Line Rate. As recently as early 1996, the rate was reduced to a statewide rate of \$12.00. BellSouth's further reduction of the Hunting Rate, according to

Addis, will directly benefit many of South Carolina's business customers in the present and in the future.

In summary, Addis noted that BellSouth believed that it had chosen the correct rates to be eliminated or reduced to eliminate the intrastate subsidy associated with its pay telephone operation. According to Addis, the reductions would directly benefit many South Carolina residence and business customers in the present and in the future. BellSouth urges the Commission to approve the proposed rate changes.

AT&T presented the testimony of James M. Mertz. Mertz stated that instead of eliminating zone mileage charges and reducing the Hunting Rate for business customers, BellSouth should reduce the amount of switched access that it presently receives to reduce the subsidy. AT&T stated that it had no objection to BellSouth reducing the zone mileage charges and Hunting charges, as long as it did not use this reduction to satisfy its removal of subsidies pursuant to the FCC Orders. AT&T calculated a \$7.044 million reduction in intrastate switched access charges that should be made in order to eliminate subsidies. At a minimum, AT&T requests that this Commission require BellSouth to reduce switched access charges by \$2.459 million, the amount identified by BellSouth in its South Carolina Payphone Study. According to AT&T, the remainder of the \$7.044 million will allow BellSouth to reduce other rates, if it chooses.

MCI presented the testimony of Melba Reed. MCI's position was that BellSouth should reduce its intrastate CCL switched

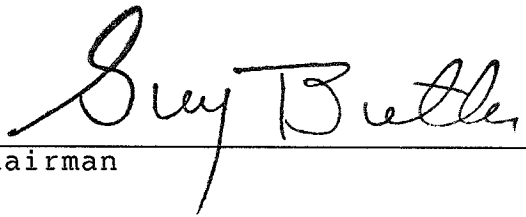
access rates in South Carolina by the amount of \$2.459 million. According to Reed, by lowering the intrastate CCL switched access rate element, interexchange carriers (IXCs) will partially be reimbursed for the increased cost caused by the change in payphone competition. According to Reed, it is more appropriate for the payphone subsidy to be removed from CCL than the reduction in Hunting proposed by BellSouth, since, according to Reed, IXCs are bearing the brunt of payphone compensation.

We have examined this matter, and we believe that BellSouth's tariff proposals are appropriate, as modified by the Stipulation with the Consumer Advocate. We believe that zone mileage charges and Hunting charges have been a major concern to both residential and business customers, and that the tariff, as modified by the agreement with the Consumer Advocate is in the best interest of BellSouth's customers in South Carolina, in that it removes charges which have been of concern to the customers and this Commission, while at the same time removing the payphone subsidy pursuant to the Orders of the FCC.


We therefore hold that the investigation of Tariff No. 97-53 is dismissed, that Tariff No. 97-53 is hereby affirmed as modified by the agreement with the Consumer Advocate, said agreement being

attached hereto as Attachment #1 to this Order. This is effective back to April 11, 1997. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director
(SEAL)